

**Proposed Part Y Rules**

**serving areas of one or more local exchange carrier wire centers which has satisfied the competitive criterion as set forth in § Y.101(f) or (l).**

(ddd) **"WATS Access Line" means a line or trunk that is used exclusively for WATS service.**

(eee) **Wire Center. Denotes a building in which one or more central offices, used for the provision of telephone exchange services, are located.**

~~(f) "Basic Service Elements" are optional unbundled features that enhanced service providers may require or find useful in the provision of enhanced services, as defined in Amendments of Part 69 of the Commission's Rules Relating to the Creation of Access Charge Subelements for Open Network Architecture, Report and Order, CC Docket No. 89-79, 6 FCC Red. 4524, (1991).~~

~~(g) "Transitional Support" (TRS) means funds provided by telephone companies that are not association Common Line tariff participants, but were not contributors to the association Common Line pool in 1988, to telephone companies that are not association common line tariff participants and were not receivers from the association Common Line pool in 1988.~~

~~(h) "Dedicated Signalling Transport" means transport of out-of-band signalling information between an interexchange carrier or other person's common channel signalling network and a telephone company's signalling transport point on facilities dedicated to the use of a single customer.~~

~~(i) "Direct Trunked Transport" means transport on circuits dedicated to the use of a single interexchange carrier or other person, without switching at the tandem, (1) between the serving wire center and the end office, or (2) between two customer designated telephone company offices.~~

~~(j) "Entrance Facilities" means transport from the interexchange carrier or other person's point of demarcation to the serving wire center.~~

~~(k) "Serving Wire Center" means the telephone company central office designated by the telephone company to serve the geographic area in which the interexchange carrier or other person's point of demarcation is located.~~

~~(l) "Tandem Switched Transport" means transport of traffic that is switched at a tandem switch (1) between the serving wire center and the end office, or~~

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- ~~(2) between the telephone company office containing the tandem switching equipment, as described in § 36.124 of this chapter, and the end office. Tandem-switched transport between a serving wire center and an end office consists of circuits dedicated to the use of a single interexchange carrier or other person from the serving wire center to the tandem (although this dedicated link will not exist if the serving wire center and the tandem are located in the same place) and circuits used in common by multiple interexchange carriers or other persons from the tandem to the end office.~~
- ~~(-) "Initial transport rates" means rates for entrance facilities, direct-trunked transport, tandem-switched transport, dedicated signalling transport, and the interconnection charge in tariffs filed on September 1, 1993 pursuant to the Report and Order in Transport Rate Structure and Pricing, CC Docket No. 91-213, FCC 92-442, 7 FCC Rcd. 7006 (1992).~~
- ~~(-) "Level I Contributors" Telephone companies that are not association Common Line tariff participants, file their own Common Line Tariffs effective April 1, 1990, and had a lower than average Common Line revenue requirement per minute of use in 1988 and thus were net contributors (i.e., had a negative net balance) to the association Common Line pool in 1988.~~
- ~~(-) "Level I Receivers" Telephone companies that are not association Common Line tariff participants, file their own Common Line tariffs effective April 1, 1990, and had a higher than average Common Line revenue requirement per minute of use in 1988 and thus were net receivers (i.e., had a positive net balance) to the association Common Line pool in 1988.~~
- ~~(-) "Level II Contributors" A telephone company or group of affiliated telephone companies with fewer than 300,000 access lines or less than \$150 million in annual operating revenues that is not an association Common Line tariff participant, that files its own Common Line tariff effective July 1, 1990, and that had a lower than average Common Line revenue requirement per minute of use in 1988 and thus was a net contributor (i.e., had a negative net balance) to the association Common Line pool in 1988.~~
- ~~(-) "Level II Receivers" A telephone company or group of affiliated telephone companies with fewer than 300,000 access lines and less than \$150 million in annual operating revenues that is not an association Common Line tariff participant, that files its own Common Line tariff effective July 1, 1990, and that had a higher than average Common Line revenue requirement per minute of use in 1988 and thus was a net receiver (i.e., had a positive net~~

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~~balance) from the association Common Line pool in 1988.~~

~~( ) "Unit of Capacity" means the capability to transmit one conversation;~~

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**Subpart B - Market Area Classification**

**§ Y.101 Market Area Classification**

- (a) Each local exchange carrier shall establish market areas no later than [date]. A market area is a geographical area designated by a local exchange carrier which is comprised of the serving areas of one or more wire centers. There are three types of market areas: Initial Market Area (IMA), Transitional Market Area (TMA), Competitive Market Area (CMA)
- (b) Local exchange carriers will assign each wire center to an IMA, TMA, or CMA. Wire centers to be assigned to a TMA must meet the criteria set forth in (f) or (h). Wire centers to be designated as CMAs must meet the criteria set forth in (g) or (h).
- (c) Each of the wire centers within a density pricing zone within a study area, established prior to [date], will be assigned to an IMA, except as specified in (i).

  - (1) Zone(1) wire centers will be assigned to IMA(1), Zone(2) wire centers will be assigned to IMA(2), and so on.
  - (2) All wire centers within a zone which have been designated as a CMA, or as part of a TMA, will not be included in an IMA.
- (d) If a local exchange carrier has not established density pricing zones within a study area prior to [date], then the wire centers within the study area will be assigned to an IMA(1), except as specified in (c)(2).
- (e) If a local exchange carrier has not established density pricing zones within a study area prior to [date], then that carrier may establish a reasonable number of additional IMAs within that study area at any subsequent time, provided that at least one wire center in the study area meets the criteria specified in (f) or (g) or (i). Such additional IMAs shall be designed to reasonably reflect cost related characteristics, such as the density of total interstate traffic in wire centers located in the respective IMAs.
- (f) For each IMA, a local exchange carrier may establish one corresponding TMA. A local exchange carrier may, at any time, assign any wire center from an IMA to its corresponding TMA, if the local exchange carrier demonstrates that a service substitutable for interstate access service is

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available from an alternate provider within the wire center serving area. For example, a demonstration that expanded interconnection has been provided to at least one customer in the wire center shall be sufficient to meet this criterion.

- (g) A local exchange carrier may, at any time, designate any wire center as a CMA. Each CMA shall include one wire center. More than one CMA may be established within a study area. A CMA may be established if the local exchange carrier demonstrates each of the following:

  - (1) That customers within the serving area of the wire center representing at least 25% of the demand for the local exchange carrier's interstate access services, or 20% of the total market demand for interstate access services within that area have available to them an alternative source of supply, and;
  - (2) That customers in the serving area of the wire center whose demand represents at least 25% of the total demand within that area for the local exchange carrier's interstate access services, or a single customer whose demand represents at least 15% of that total, actively seek(s) to reduce the cost of their access services through the solicitation of bids, use of private networks, or construction of their own facilities.
- (h) A local exchange carrier may designate a wire center as a CMA, and satisfy the criteria set forth in (g), with respect to all interstate access services within the wire center serving area. Alternatively, at the option of the local exchange carrier, it may designate a wire center as a CMA, and satisfy the criteria set forth in (g), with respect to the services within an individual access category or basket, such as Transport or Switching.
- (i) A non-Tier 1 local exchange carrier may assign a wire center to a TMA if it demonstrates that the serving area of such wire center is adjacent to a Tier 1 wire center serving area that has been assigned to a TMA. A non-Tier 1 local exchange carrier may designate a wire center as a CMA if it demonstrates that the serving area of such wire center is adjacent to a Tier 1 wire center serving area that has been designated as a CMA.
- (j) Market area classifications do not apply to public policy elements, as defined in Part Z.
- (k) Local exchange carriers will establish market areas, and assign wire centers

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to market areas, through tariff revisions filed pursuant to Part 61.

**§ Y.102 Market Area Pricing**

- (a) Local exchange carriers may establish rates, terms, or conditions for access services that differ from one market area to another.

  - (1) An access service component shall be deemed to be offered in the market area that contains the wire center from which the service is provided.
  - (2) If the end points of an access service component are in different market areas belonging to the same local exchange carrier, then the charge for that component will be the lowest of the market areas' rates.
- (b) A local exchange carrier may provide any interstate access service under contract-based tariffs within a CMA, as specified in § 61.40(b) and (c). A local exchange carrier may offer any interstate access service under contract-based tariffs within a TMA, pursuant to § 61.40(e), in response to a request for proposal (RFP) from a customer.

**Subpart C - Price Cap Rules**

**§ Y.201 Price cap requirements generally.<sup>3</sup>**

- (a) Sections ~~61.41~~ Y.201 through ~~61.49~~ Y.207 shall apply as follows:
- (1) To such local exchange carriers, as specified by Commission order, and to all local exchange carriers, other than average schedule companies, that are affiliated with such carriers; and
  - (2) On an elective basis, to local exchange carriers, other than those specified in paragraph (a)(1), that are neither participants in any Association tariff, nor affiliated with any such participants, except that affiliation with average schedule companies shall not bar a carrier from electing price cap regulation provided the carrier is otherwise eligible.
- (b) If a ~~telephone-company local exchange carrier~~, or any one of a group of affiliated ~~telephone-companies local exchange carriers~~, files a price cap tariff in one study area, that ~~telephone-company local exchange carrier~~ and its affiliates, except its average schedule affiliates, must file price cap tariffs in all their study areas.
- (c) The following rules apply to ~~telephone-companies local exchange carriers~~ subject to price cap regulation, ~~as that term is defined in § 61.3(w)~~, which are involved in mergers, acquisitions, or similar transactions.
- (1) Any ~~telephone-company local exchange carrier~~ subject to price cap regulation that is a party to a merger, acquisition, or similar transaction shall continue to be subject to price cap regulation notwithstanding such transaction.
  - (2) Where a ~~telephone-company local exchange carrier~~ subject to price cap regulation acquires, is acquired by, merges with, or otherwise becomes affiliated with a ~~telephone-company local exchange carrier~~ that is not subject to price cap regulation, the latter ~~telephone company local exchange carrier~~ shall become subject to price cap regulation no later than one year following the effective date of such merger, acquisition, or similar transaction and shall accordingly file

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<sup>3</sup> Moved from 61.41

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price cap tariffs to be effective no later than the date in accordance with the applicable provisions of this Part 61.

- (3) Notwithstanding the provisions of ~~§ 61.41(e)(2)~~ above, when a ~~telephone company local exchange carrier~~ subject to price cap regulation acquires, is acquired by, merges with, or otherwise becomes affiliated with a ~~telephone company local exchange carrier~~ that qualifies as an "average schedule" company, the latter company may retain its "average schedule" status or become subject to price cap regulation in accordance with ~~§ 69.3 61.44(i)(3)~~ and the requirements referenced in that section.
- (d) Local exchange carriers that become subject to price cap regulation ~~as that term is defined in § 61.3(w)~~ shall not be eligible to withdraw from such regulation.

**§ Y.202 Price cap baskets and service [market area] categories.<sup>4</sup>**

- (a) Each local exchange carrier subject to price cap regulation shall establish baskets as follows:
  - (1) A Transport basket which includes all rate elements for services related to the transmission of telecommunications signals between local exchange carrier locations, or between such locations and customer premises. Functions for which charges in this basket may be assessed include all interoffice transport, regardless of whether the transport facility is associated with a switching function; all facilities provided under interstate access tariffs between the local serving office and a customer's premises; and any features associated with transport such as line conditioning. For price management purposes, the Interconnection Charge public policy element, as specified in § Z.106, shall be included in the Transport basket. No other public policy elements shall be included in the Transport basket.
  - (2) A Switching basket which includes all rate elements for services related to the processing of telecommunications signals at local exchange carrier locations, except for public policy elements. Functions for which charges in this basket may be assessed include

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<sup>4</sup> Moved from 61.42



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**switching, data base functions, signalling functions, measurement functions, operator and directory assistance functions, and other appropriate features and functions.**

- (3) A Public Policy basket which includes the following elements mandated by the Commission for the purpose of promoting public policy objectives as set forth in Part Z:**

**(i) End User Common Line charges**

**(ii) Special Access Surcharge**

**(iii) Carrier Common Line charges**

- (4) An Other basket which includes rate elements for any access services, subject to price cap regulation, that are not contained in the Transport or Switching baskets and are not public policy elements.**

~~(1) A basket for the common line interstate access elements as described in §§69.4(a)103, 69.104, 69.105, and 69.115;~~

~~(2) A basket for traffic sensitive switched interstate access elements;~~

~~(3) A basket for special access services as described in § 69.110(a)4, and~~

~~(4) To the extent that a local exchange carrier specified in § 61.41(a)(2) or (3) offers interstate interexchange services that are not classified as access services for the purpose of Part 69, such exchange carrier shall establish a fourth basket for such services.~~

- (b) Within the following price cap baskets, market area categories shall be established as follows:**

- (1) In the Transport basket:**

**(i) IMA market area categories will be established as follows:**

**(A) Digital Market Area Category IMA(N) - contains rate elements in the transport basket associated with digital transport services from all IMA(N)s where (N) is a range from one to the maximum number of IMAs**

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established in any study area. For example, Digital Market Area Category IMA(1) contains IMA(1) digital transport service rate elements from all study areas.

- (B) Non-Digital Market Area Category IMA(N) - contains rate elements in the transport basket associated with non-digital transport services from all IMA(N)s where (N) is a range from one to the maximum number of IMAs established in any study area. For example, Non-Digital Market Area Category IMA(1) contains IMA(1) non-digital transport service rate elements from all study areas.

- (II) One TMA market area category will be established for all TMA rate elements in the Transport basket.

**(2) In the Switching basket:**

- (I) IMA market area categories will be established as follows:

Market Area Category IMA(N) - contains rate elements assigned to the Switching basket from all IMA(N)s where (N) is a range from one to the maximum number of IMAs established in any study area. For example, Market Area Category IMA(1) contains IMA(1) switching rate elements from all study areas.

- (II) One TMA market area category will be established for all TMA rate elements assigned to the Switching basket.

**(3) In the Other basket:**

- (I) IMA market area categories will be established as follows:

Market Area Category IMA(N) - contains rate elements assigned to the Other basket from all IMA(N)s where (N) is a range from one to the maximum number of IMAs established in any study area. For example, Market Area Category IMA(1) contains IMA(1) other rate elements from all study areas.

- (II) One TMA market area category will be established for all

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**TMA rate elements assigned to the Other basket.**

- ~~(e) (1) The traffic sensitive switched interstate access basket shall contain such services as the Commission shall permit or require, including the following service categories:~~
- ~~(i) local switching, as described in § 69.106;~~
  - ~~(ii) information, as described in § 69.109;~~
  - ~~(iii) entrance facilities, direct trunked transport, and dedicated signalling transport, as described in §§ 69.110, 69.112, and 69.126, respectively of this chapter.~~
  - ~~(iv) Tandem-switched transport, as described in § 69.111 of this chapter.~~
  - ~~(v) Interconnection charge, as described in § 69.124 of this chapter.~~
  - ~~(vi) Data base access, including basic 800 data base access, call validation, POTS translation, alternate POTS translation, multiple carrier routing, and traffic routing services, as described in Provision of Access for 800 Service, Second Report and Order, 8 FCC Red \_\_\_, CC Docket No. 86-10, FCC 93 \_\_\_ (1993) and other such services as the Commission shall permit or require; and~~
  - ~~(vii) billing name and address, as described in § 69.128 of this chapter.~~
- ~~(2) The basket for special access services shall contain such services as the Commission shall permit or require, including the following service categories:~~
- ~~(i) Voice grade, WATS, metallic, and telegraph services;~~
  - ~~(ii) Audio and video services;~~
  - ~~(iii) High capacity and DDS services; and~~
  - ~~(iv) Wideband data and wideband analog services.~~

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- (fc) Each local exchange carrier subject to price cap regulation shall exclude from its price cap baskets such services or portions of such services as the Commission has designated or may hereafter designate by order, including but not limited to:
- (1) Special Construction Services;
  - (2) Individual Case Basis Charges;
  - (3) Public Packet services;
  - (4) Services offered in CMAs;
  - (5) Contract-based tariffs.
- (gd) New services, other than those within the scope of paragraphs (c) and (f) of this section, must be included in the affected basket and market area categories, as appropriate, at the first annual price cap tariff filing following completion of the base period in which they are introduced. ~~To the extent that such new services are permitted or required to be included in new or existing service categories within the assigned basket, they shall be so included at the first annual price cap tariff filing following completion of the period in which they are introduced.~~
- (e) Local exchange carriers may introduce rate elements for access services as appropriate.

**§ Y.203 Adjustments to the PCI for local exchange carriers<sup>5</sup>**

- (a) Local exchange carriers subject to price cap regulation shall file adjustments to the PCI for each basket as part of the annual price cap tariff filing, and shall maintain updated PCIs to reflect the effect of mid-year exogenous cost changes.
- (b) ~~Subject to paragraph (e) of this section, Adjustments to local exchange carrier PCIs for the Transport, Switching and Other baskets designated in § 61.42(d)(2), (3) and (4) shall be made pursuant to the formula set forth in § 61.44(b), and as further explained in §§61.44(e), (f), (g), and (h). are~~

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<sup>5</sup> Moved from 61.45

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made pursuant to the following formula:

$$PCI_t = PCI_{t-1} [1 + w(GNP-PI - X) + \Delta Z/R]$$

where

**GNP-PI =** the percentage change in the GNP-PI between the quarter ending six months prior to the effective date of the new annual tariff and the corresponding quarter of the previous year,

**X =** a productivity factor for the Transport and Switching basket of 3.3% or 4.3%, if the carrier so elects; or a productivity factor for the other basket of 3.0% or 4.0%, if the carrier so elects.

**$\Delta Z$  =** the dollar effect of current regulatory changes when compared to the regulations in effect at the time the PCI was updated to  $PCI_{t-1}$ , measured at base period level of operations,

**R =** base period quantiles for each rate element "T", multiplied by the price for each rate element "T" at the time the PCI was updated to  $PCI_{t-1}$ ,

**w =**  $R + \Delta Z$ , all divided by R,

**$PCI_t$  =** the new PCI value, and

**$PCI_{t-1}$  =** the immediately preceding PCI value.

~~(1) Notwithstanding the value of X defined in § 61.44(b), the X value applicable to the baskets specified in § 61.42(d)(2) and (3) shall be 3.3%, or 4.3% if the carrier so elects.~~

~~(2) For the basket specified in § 61.42(d)(4), the value of X shall be 3%, or 4% if the carrier so elects.~~

- (c) Subject to paragraph (eg) of this section, adjustments to the local exchange carrier PCIs for the Public Policy basket designated in § 61.42(d)(1) shall

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be made pursuant to the following formula:

$$PCI_t = PCI_{t-1} [1 + w[(GNP-PI - X - (g/2))/(1 + (g/2))] + \Delta Z/R]$$

where

**GNP-PI=** the percentage change in the GNP-PI between the quarter ending six months prior to the effective date of the new annual tariff and the corresponding quarter of the previous year,

**X =** productivity factor of 3.3%, or 4.3% if the carrier so elects,

**g =** the ratio of minutes of use per access line during the base period, to minutes of use per access line during the previous base period, minus 1,

**$\Delta Z$  =** the dollar effect of current regulatory changes when compared to the regulations in effect at the time the PCI was updated to  $PCI_{t-1}$ , measured at base period level of operations,

**R =** base period quantities for each rate element "i", multiplied by the price for each rate element "i" at the time the PCI was updated to  $PCI_{t-1}$ ,

**w =**  $R + \Delta Z$ , all divided by R,

**$PCI_t$  =** the new PCI value, and

**$PCI_{t-1}$  =** the immediately preceding PCI value.

(d) The exogenous cost changes represented by the term " $\Delta Z$ " in the formulas detailed in paragraphs (b) and (c), shall be limited to those cost changes that the Commission shall permit or require.

(1) Subject to further order of the Commission, those exogenous changes shall include cost changes caused by:

(i) the completion of the amortization of depreciation reserve

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deficiencies;

- (ii) such changes in the Uniform System of Accounts as the Commission shall permit or require; and
- (iii) changes in the Separations Manual;
- (iv) changes to the level of obligation associated with the Long Term Support Fund and the Transitional Support Fund described in § 69.612 Z.109;
- (v) the reallocation of investment from regulated to nonregulated activities pursuant to § 64.901;
- (vi) such tax law changes and other extraordinary exogenous cost changes as the Commission shall permit or require, and
- ~~(vii) retargeting the PCI to the level specified by the Commission for carriers whose base-year earnings are below the level of the lower adjustment mark.~~
- (viii) inside wire amortizations.

~~(2) Local exchange carriers specified in § 61.41(a)(2) or (a)(3) shall also make such temporary exogenous cost changes as may be necessary to reduce PCIs to give full effect to any sharing of base period earnings required by the sharing mechanism set forth in the Commission's Second Report and Order in Common Carrier Docket No. 87-313, FCC 90-314, adopted September 10, 1990. Such exogenous cost changes shall include interest, computed at the prescribed rate of return, from the day after the end of the period giving rise to the adjustment, to the midpoint of the period when the adjustment is in effect.~~

(32) Local exchange carriers specified in § 61.41(a)(2) or (a)(3) subject to price cap regulation shall, in their annual access tariff filing, recognize all exogenous cost changes attributable to modifications during the coming tariff year in the obligations specified in § 61.45(d)(1)(iv) Y.203(g)(1)(iv) as well as those changes attributable to alterations in their Subscriber Plant Factor and the Dial Equipment Minutes factor, and completions of inside wire amortizations and reserve deficiency amortizations.

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- (43) Exogenous cost changes shall be apportioned on a cost-causative basis between price cap services as a group, and excluded services as a group. Exogenous cost changes thus attributed to price cap services shall be further apportioned on a cost-causative basis among the price cap baskets.
- (e) The " $w(\text{GNP-PI} - X)$ " component of the PCI formula contained in (b) shall be employed only in the adjustment made in connection with the annual price cap filing.
- (ef) The " $w[(\text{GNP-PI} - X - (g/2))/(1 + (g/2))]$ " component of the PCI formula contained in paragraph (c) shall be employed only in the adjustment made in connection with the annual price cap filing.
- (fg) The exogenous costs caused by new services subject to price cap regulation must be included in the appropriate PCI calculations under paragraph (b) and (c) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced.
- (gh) In the event that a price cap tariff becomes effective, which tariff results in an API value (calculated pursuant to § 61.46 Y.204) that exceeds the currently applicable PCI value, the PCI value shall be adjusted upward to equal the API value.
- (hi) To the extent a local exchange carrier elects the higher productivity factor, the election must be made in all baskets.

**§ Y.204 Adjustments to the API [for local exchange carriers].<sup>6</sup>**

- (a) ~~Except as provided in paragraphs (d) and (e) of this section,~~ In connection with any price cap tariff filing proposing rate changes in the Transport, Switching, Public Policy and Other baskets, the carrier must calculate an API for each affected basket pursuant to the following methodology:

$$API_t = API_{t-1} [\sum_i v_i (p_i / p_{t-1})]$$

$$API_t = API_{t-1} [\sum_i ((d_i)(p_i)) / \sum_i ((d_i)(p_{t-1}))]$$

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<sup>6</sup> Moved from 61.46



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where

$API_i =$  the proposed API value;

$API_{i-1} =$  the existing API value,

$p_i =$  the proposed price for rate element "i"

$p_{i-1} =$  the existing price for rate element "i"

~~$v_i =$  the current estimated revenue weight for rate element "i," calculated as the ratio of the base period demand for the rate element "i" priced at the existing rate, to the base period demand for the entire basket of services priced at existing rates.~~

$d_i =$  the base period demand for rate element "i"

- (b) New services subject to price cap regulation must be included in the appropriate API calculations under paragraph (a) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced. This index adjustment requires that the demand for the new service during the base period must be included in determining the weights used in calculating the API.
- (c) Any price cap tariff filing proposing rate restructuring shall require an adjustment to the API pursuant to the general methodology described in paragraph (a) of this section. This adjustment requires the conversion of existing rates into rates of equivalent value under the proposed structure, and then the comparison of the existing rates that have been converted to reflect restructuring to the proposed restructured rates. This calculation may require use of carrier data and estimation techniques to assign customers of the preexisting service to those services (including the new restructured service) that will remain or become available after restructuring.
- ~~(d) In connection with any price cap tariff proposing changes to rates for services in the basket designated in § 61.42(d)(1), the maximum allowable carrier common line (CCL) charges shall be computed pursuant to the following methodology:~~

$$\text{CCL}_{\text{MOU}} = \text{CL}_{\text{MOU}} * (1 + \% \text{ change in CL PCI}) - \text{EUC}_{\text{MOU}} * 1 / (1 + (g/2))$$

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where

~~$GCL_{MOU} =$  the sum of each of the proposed Carrier Common Line rates multiplied by its corresponding base period Carrier Common Line minutes of use, divided by the sum of all types of base period Carrier Common Line minutes of use,~~

~~$CL_{MOU} =$  the sum of each of the existing maximum allowable Carrier Common Line rates multiplied by its corresponding base period Carrier Common Line minutes of use plus each existing End User Common Line (EUCL) rate multiplied by its corresponding base period lines, divided by the sum of all types of base period Carrier Common Line minutes of use,~~

~~$EUCL_{MOU} =$  proposed End User Common Line rates multiplied by base period lines, and divided by the sum of all types of base period Carrier Common Line minutes of use, and~~

~~$g =$  the ratio of minutes of use per access line during the base period to minutes of use per access line during the previous base period, minus 1.~~

~~(e) In addition, for the purposes of § 61.46(d), "Existing Carrier Common Line Rates" shall include existing originating premium, originating non premium, terminating premium and terminating non premium rates; and "End User Common Line Rates" used to calculate the  $CL_{MOU}$  and the  $EUCL_{MOU}$  factors shall include, but not be limited to, Residential and Single Line Business rates, Centrex rates, Limited Pay Telephone Rates, and the Special Access surcharge.~~

~~(f) The " $1/(1 + (g/2))$ " component of the  $GCL_{MOU}$  formula contained in paragraph (d) shall be employed only in the adjustment made in connection with the annual price cap filing~~

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**§ Y.205 Adjustments to the SBI [MABl]; pricing bands [for local exchange carriers].<sup>7</sup>**

- (a) In connection with any price cap tariff filing proposing changes in the rates of service market area categories, the carrier must calculate an SBI MABl value for each affected service market area category pursuant to the following methodology:

$$SBI_t = SBI_{t-1} [\sum_i v_i (p_i / p_{t-1})]$$

$$MABl_t = MABl_{t-1} [\sum_i ((d_i)(p_i)) / \sum_i ((d_i)(p_{t-1}))]$$

where

$SMABl_t$  = the proposed SMABl value,

$SMABl_{t-1}$  = the existing SMABl value,

$p_i$  = the proposed price for rate element "i"

$p_{t-1}$  = the existing price for rate element "i"

$v_i$  = ~~the current estimated revenue weight for rate element "i," calculated as the ratio of base period demand for rate element "i" priced at the existing rate, to the base period demand for the entire group of rate elements comprising the service market area category priced at existing rates.~~

$d_i$  = the base period demand for rate element "i"

- (b) New services that are added to existing service market area categories must be included in the appropriate SBI MABl calculations under paragraph (a) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced. This index adjustment requires that the demand for the new service during the base period must be included in determining the weights used in calculating the SBI MABl.

- ~~(c) In the event that the introduction of a new service requires the creation of a new service category, a new SBI must be established for that service~~

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<sup>7</sup> Moved from 61.47

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~~category beginning at the first annual price cap tariff filing following completion of the base period in which the new service is introduced. The new SBI should be initialized at a value of 100, corresponding to the service category rates in effect the last day of the base period, and thereafter should be adjusted as provided in paragraph (a) of this section.~~

- (dc) Any price cap tariff filing proposing rate restructuring shall require an adjustment to the affected ~~SBI MAB~~ pursuant to the general methodology described in paragraph (a) of this section. This adjustment requires the conversion of existing rates in the rate element group into rates of equivalent value under the proposed structure, and then the comparison of the existing rates that have been converted to reflect restructuring to the proposed restructured rates. This calculation may require use of carrier data and estimation techniques to assign customers of the preexisting service to those services (including the new restructured service) that will remain or become available after restructuring.
- ~~(e) (1) Pricing bands shall be established each tariff year for each service category within a basket. Except as provided in paragraph (f) of this section, each band shall limit the pricing flexibility of the service category, as reflected in its SBI, to an annual increase or decrease of five percent, relative to the percentage change in the PCI for that basket, measured from the levels in effect on the last day of the preceding tariff year.~~
- (d) (21) Notwithstanding paragraph ~~(e)(1)~~ of this section, ~~t~~ The upper pricing band for IMA market area categories ~~the tandem-switched transport, and service categories~~ shall limit the annual upward pricing flexibility for ~~this service category~~, as reflected in its ~~each SBI, MAB~~ to ~~fifteen~~ two percent, relative to the percentage change in the PCI for ~~each the traffic-sensitive switched interstate access basket~~, measured from the last day of the preceding tariff year. The lower pricing band for ~~IMA market area categories the tandem-switched transport service category~~ shall limit the annual downward pricing flexibility for ~~this service category~~, as reflected in its ~~SBI each MAB~~, to ~~ten~~ five percent, relative to the percentage change in the PCI for ~~each the traffic-sensitive switched interstate access basket~~, measured from the last day of the preceding tariff year.
- (32) Notwithstanding paragraph ~~(e)(1)~~ of this section, ~~t~~ The upper pricing band for TMA market area categories ~~the interconnection charge~~

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~~service category services shall limit the annual upward pricing flexibility for this service category as reflected in its SBI's each MABI, to five zero percent, relative to the percentage change in the PCI for each the traffic-sensitive-switched-interstate-access basket, measured from the last day of the preceding tariff year. The lower pricing band for TMA market area categories shall limit the annual downward pricing flexibility as reflected in each MABI to fifteen percent, relative to the percentage change in the PCI for each basket, measured from the last day of the preceding tariff year. There shall be no lower pricing band for the interconnection charge.~~

- ~~(h) (1) Local exchange carriers subject to price cap regulation as that term is defined in § 61.3(w) shall use the methodology set forth in paragraphs (a) through (d) of this section to calculate two separate subindexes: one for the DS1 services offered by such carriers and the other for the DS3 services offered by such carriers. Notwithstanding paragraph (e) of this section, the annual pricing flexibility for each of these two subindexes shall be limited to an annual increase or decrease of five percent, relative to the percentage change in the PCI for the special access services basket, measured from the last day of the preceding tariff year.~~
- ~~(2) In addition to the requirements of paragraph (h)(1) of this section, those local exchange carriers subject to price cap regulation that have established density pricing zones pursuant to § 60.123 of this chapter, shall use the methodology set forth in paragraphs (a) through (d) of this section to calculate separate subindexes in each zone for DS1 services, DS3 services, and such other special access services that the Commission may designate by order. Notwithstanding paragraph (e) of this section, the annual pricing flexibility for each of these subindexes shall be limited to an annual increase of five percent or an annual decrease of ten percent, relative to the percentage change in the PCI for the special access services basket, measured from the last day of the preceding tariff year.~~
- ~~(i) Local exchange carriers subject to price cap regulation as that term is defined in § 61.3(v) of this chapter shall use the methodology set forth in paragraphs (a) through (d) of this section to calculate a separate subindex for the 800 data base vertical features offered by such carriers. Notwithstanding paragraph (e) of this section, the annual pricing flexibility for this subindex shall be limited to an annual increase or decrease of five~~

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~~percent, relative to the percentage change in the PCI for the traffic sensitive services basket, measured from the last day of the preceding tariff year.~~

**§ Y.206 Transition rules for price cap formula calculations [for local exchange carriers].<sup>8</sup>**

- ~~(a) Dominant interexchange carriers subject to price cap regulation shall file initial price cap tariffs May 17, 1989, to be effective July 1, 1989.~~
- ~~(b) (1) In connection with the initial price cap tariff filing described in paragraph (a) of this section, each PCI, API, and SBI shall be assigned an initial value prior to adjustment of 100, corresponding to the costs and rates in effect as of December 31, 1988.~~
  - ~~(2) The PCI and API for offerings under § 61.24(b)(3) shall be assigned a value equal to 100, corresponding to rates in effect as of August 1, 1991. Dominant interexchange carriers subject to price cap regulation shall file new business basket index levels with the first business basket tariff transmittal that is filed subsequent to the effective date of this rule.~~
- ~~(c) Local exchange carriers subject to price cap regulation shall file initial price cap tariffs not later than November 1, 1990, to be effective January 1, 1991.~~
- ~~(d) (1) In connection with the initial price cap filing described in paragraph (c) of this section, each PCI, API, and SBI shall be assigned an initial value prior to adjustment of 100, corresponding to the costs and rates in effect as of July 1, 1990.~~
  - (2) Carriers electing price cap regulation under Section 61.41(a)(3) Y.201(a)(2) in a year after 1991 shall file initial price cap tariffs not later than April 2 of the year of election, to be effective on July 1 of the year of election. Each PCI, API, and ~~SBI~~ **MABI** shall be assigned an initial value prior to adjustment of 100, corresponding to the costs and rates in effect as of January 1 of the year of election.
- ~~(e) In connection with the initial price cap filing described in paragraph (c) of this section, initial PCI calculations shall be made without adjustment for any changes in inflation or productivity. Annual price cap filings~~

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<sup>8</sup> Moved from 61.48

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~~incorporating the full value of the GNP PI and productivity effects will commence April 2, 1991, with a scheduled effective date of July 1, 1991.~~

- ~~(f) Local exchange carriers specified in § 61.41(a)(2) or (3) shall, in their initial price cap filings described in paragraph (c) of this section, adjust their PCs through use of an exogenous cost factor to account for the repricing of the rate of return, effective January 1, 1991.~~
- ~~(g) Local exchange carriers subject to price cap regulation shall set initial rates for entrance facilities, tandem-switched transport, direct-trunked transport, and dedicated signalling transport, to be filed with an effective date of November 1, 1993, according to the requirements set forth in §§ 69.110, 69.111, 69.112, and 69.125, respectively.~~
- ~~(h) Local exchange carriers subject to price cap regulation shall set the initial upper limit for the interconnection charge, to be filed with an effective date of November 1, 1993, according to the requirements set forth in § 69.124.~~

**§ Y.207 Initialization rules for price cap local exchange carriers**

No later than [date], local exchange carriers subject to price cap regulations shall establish new price cap baskets for Transport, Switching, Public Policy and Other. Local exchange carriers shall also establish market area categories pursuant to Y.202(b). In the submissions, price cap companies shall provide a mapping of existing rate elements subject to price cap regulation into the appropriate baskets and market area categories. Base period demand for these elements shall be recast into such baskets and market area categories in accordance with the proposed mapping.

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**Subpart D - Non-Price Cap Rules**

**§ Y.301 Scope**

The rules contained in this subpart are applicable to non-price cap local exchange carriers.

**§ Y.302 Access categories**

(a) Each local exchange carrier that is not subject to price cap regulation shall establish access categories as follows:

- (1) A Transport access category which includes all rate elements for services related to the transmission of telecommunications signals between local exchange carrier locations, or between such locations and customer premises. Functions for which charges in this access category may be assessed include all interoffice transport, regardless of whether the transport facility is associated with a switching function; all facilities provided under interstate access tariffs between the local serving office and a customer's premises; and any features associated with transport such as line conditioning. For price management purposes, the Transport access category shall include the Interconnection Charge element described in § Z.108. No other public policy elements shall be included in the Transport access category.
- (2) A Switching access category which includes all rate elements for services related to the processing of telecommunications signals at local exchange carrier locations, except for public policy elements. Functions for which charges in this access category may be assessed include switching, data base functions, signalling functions, measurement functions, operator and directory assistance functions, and other appropriate features and functions.
- (3) A Public Policy access category which includes the following elements mandated by the Commission for the purpose of promoting public policy objectives as set forth in Part Z:
  - (i) End User Common Line charges
  - (ii) Special Access Surcharges



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**(III) Carrier Common Line charge**

- (4) An Other access category which includes rate elements for access services that are not contained in the Transport or Switching access categories and are not public policy elements.**
- (b) As specified in Subpart E of this Part, investment and expense shall be assigned to the Transport, Switching, Public Policy, and Other access categories for the purpose of developing an annual revenue requirement.**
- (c) Local exchange carriers may introduce rate elements for access services as appropriate.**

**§ Y.303 Services excluded from revenue requirement calculations**

**Local exchange carriers shall exclude from each access category revenue requirement such services or portions of such services as the Commission has designated or may hereafter designate by order, including but not limited to:**

- (a) Special Construction Services;**
- (b) Individual Case Basis Charges;**
- (c) Services offered in CMAs;**
- (d) Contract-based tariffs.**

**§ Y.304 Market area categories**

**Non-price cap local exchange carriers which have adopted Optional Incentive Regulation (OIR) in accordance with § 61.41 shall establish market area categories as follows:**

- (a) In the Transport access category:**
  - (1) IMA market area categories will be established as follows:**
    - (i) Digital Market Area Category IMA(N) - contains rate elements in the transport access category associated with digital transport services from all IMA(N)s where**